Overview of Indiana’s Pensions & Other Post-Employment Benefits (OPEB)

Adam M. Horst
Director, Indiana Office of Management and Budget
Last Update– [December] 2012

Overview

- Indiana Public Retirement System (INPRS)
  - Administers seven funds including public employees (PERF), teachers (TRF), local police and fire (‘77 Fund), judges, prosecutors, legislators, and gaming/conservation officers.
  - 447,000 + members including 231,000 active employees and 127,000 retirees
  - Pays out approximately $2 billion in annual benefits and is funded from investment gains/losses and $2 billion of annual employer and employee contributions. State of Indiana General Fund = $1 billion
  - Total Assets = $27.1 billion (market value as of 11/30/12)
  - Overall Funded Status = 81.2% (actuarial value as of 6/30/12 excluding TRF Pre-’96 paygo plan)
  - Indiana’s per capita combined pension and long term debt among the lowest in the US

Key Features of Well Funded Plans*

	Indiana
- **Pay the ARC**	✓
- **Employee Contributions**	✓
- **Funded Benefit Improvements**	✓
- **Responsible COLAs**	✓
- **Anti – Spiking Measures**	✓
- **Reasonable Actuarial Assumptions**	✓

* National Institute on Retirement Security Study – June 2011

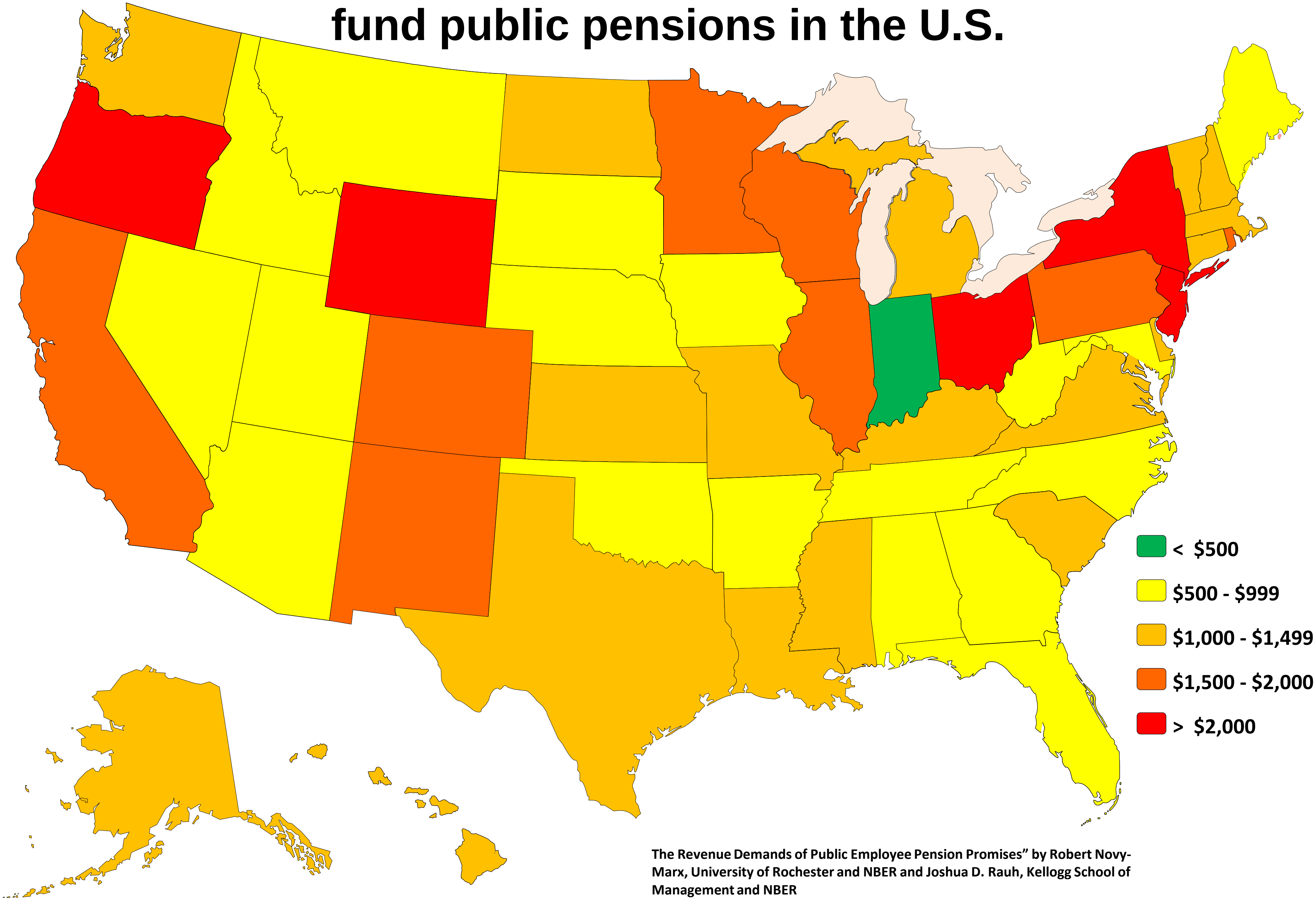
Indiana Pension Strengths

- Hybrid plan—defined contribution and defined benefit. DB average benefit modest relative to government plans in other states/localities
  - Indiana: 10 year vesting. 75% of other plans are 5 years or less
  - Indiana: 1.1x salary multiplier. Average of other plans = 2x
- Governor Daniels put an end to the gimmicks– no pension fund raids, resumed lottery profits going to the pension stabilization fund, no artificial lowering of employer contribution rates
- Recent history of fully funding the ARC
- The plans' investment return assumption of 6.75% is the lowest in the U.S.
- Ad-hoc, not automatic, cost of living adjustments (recent appropriation-backed 13^{th} checks in lieu of COLAs)
- No pension obligation bonds
- Common executive director and staff

Indiana Pension Challenges

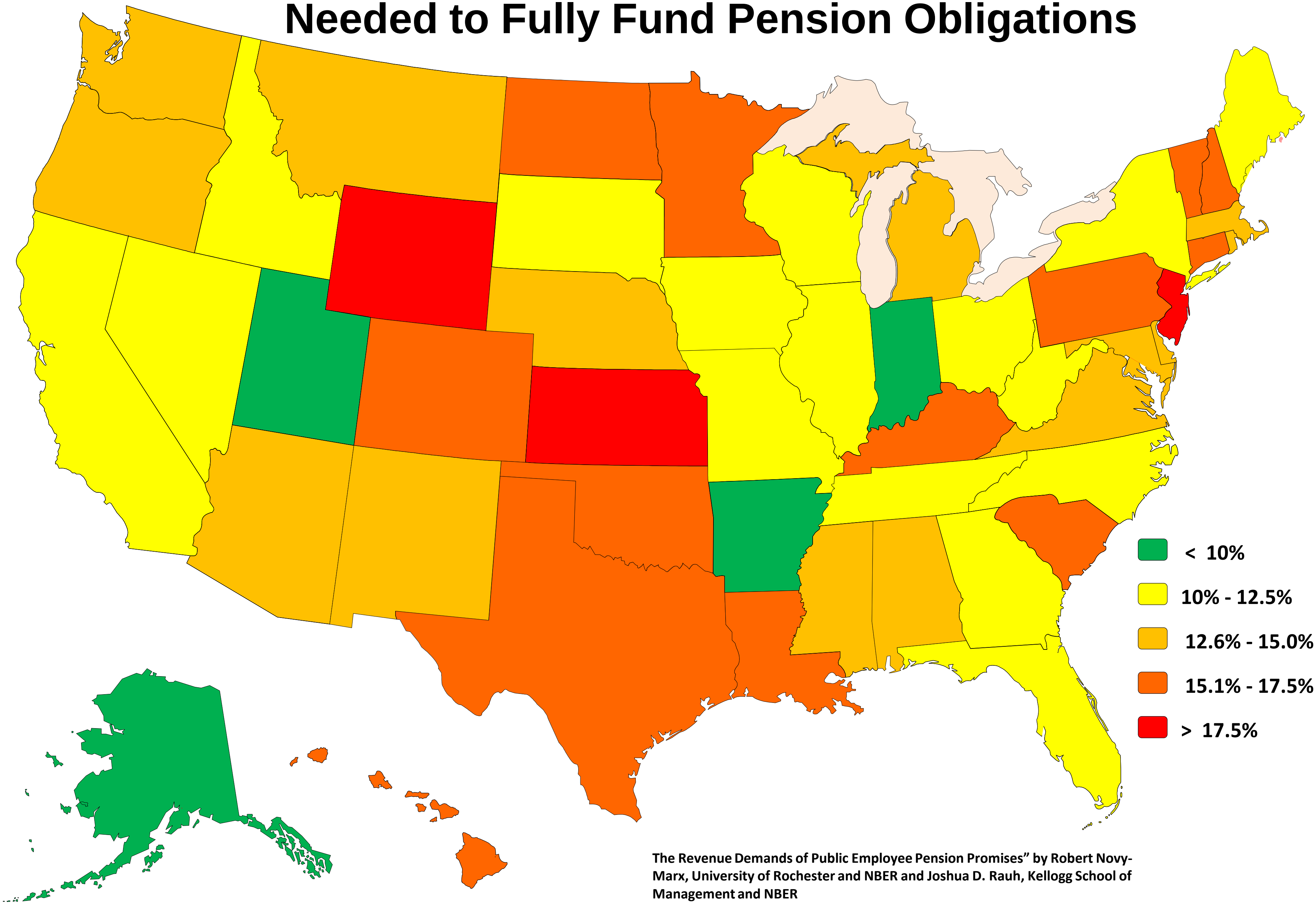
- Pre-1996 Teachers' Plan is misunderstood
  - Sole focus of external constituencies is on the funded status which is in the low 30%s
  - Established in the 1920s as a PAYGO plan. Designed from the outset as an obligation of the state to fund benefits as they come due– i.e. no pre-funding
  - Therefore, the potential challenge is the pressure this liability could place on the state budget
  - Challenge is manageable due to three factors:
    - Closed, legacy plan. New teachers are covered in a pre-funded plan. Fixed, finite liability that peaks around 2030 and then declines
    - Represents only 5% of state budget
    - Pension Stabilization Fund has over $2 billion in assets. PSF is designed to minimize the growth in general fund appropriations. Growth of <2% per year in general fund appropriation is needed to maintain a positive balance in the PSF
  - The key management discipline is to maintain consistent growth in the general fund appropriation and slowly draw down the PSF as designed
- PERF employer contribution rates are likely to rise over the next 1-2 years due to "smoothing" (phase-in) of investment losses from Great Recession

Indiana has the lowest burden per household to fully fund public pensions in the U.S.



The Revenue Demands of Public Employee Pension Promises" by Robert Novy-Marx, University of Rochester and NBER and Joshua D. Rauh, Kellogg School of Management and NBER

3rd-Lowest Percentage Return on Investment Needed to Fully Fund Pension Obligations



The Revenue Demands of Public Employee Pension Promises" by Robert Novy-Marx, University of Rochester and NBER and Joshua D. Rauh, Kellogg School of Management and NBER

Unfunded Pension Liability as a % of GDP

1	New York	-0.91	26	Kansas	4.2
2	Nebraska	0.06	27	Vermont	4.28
3	Wisconsin	0.11	28	Minnesota	5.31
4	North Carolina	0.13	29	Alabama	5.43
5	**Indiana**	**0.49**	30	Massachusetts	5.9
6	Washington	0.59	31	New Hampshire	5.9
7	Ohio	0.62	32	Idaho	6.09
8	Delaware	0.69	33	Maryland	6.4
9	Missouri	0.8	34	New Jersey	6.47
10	Tennessee	1.08	35	Oregon	6.65
11	Texas	1.24	36	Louisiana	7.13
12	Nevada	1.25	37	Colorado	7.21
13	South Dakota	1.65	38	Connecticut	7.34
14	Pennsylvania	1.79	39	Montana	7.37
15	Iowa	1.94	40	Alaska	7.38
16	Georgia	2.34	41	South Carolina	7.71
17	Florida	2.37	42	Maine	8.03
18	North Dakota	2.38	43	Hawaii	8.09
19	California	2.69	44	New Mexico	8.66
20	Virginia	2.7	45	Oklahoma	8.99
21	Michigan	3.01	46	Rhode Island	9.19
22	Utah	3.17	47	Kentucky	9.54
23	Arkansas	3.75	48	Illinois	9.85
24	Arizona	3.97	49	Mississippi	11.18
25	Wyoming	4.09	50	West Virginia	11.31

Source: Moody's January 2011 report

Combined Pension and Long-Term Debt Liability as a % of GDP

1	Nebraska	0.1
2	**Indiana**	**1.7**
3	South Dakota	1.9
4	North Carolina	1.9
5	Tennessee	1.9
6	Iowa	2.1
7	Texas	2.3
8	Missouri	2.8
9	Ohio	2.9
10	Nevada	3.1
11	North Dakota	3.1
12	Pennsylvania	3.9
13	Wyoming	4.2
14	Wisconsin	4.2
15	Delaware	4.3
16	New York	4.4
17	Virginia	4.5
18	Arkansas	4.7
19	Michigan	5
20	Georgia	5.1
21	Washington	5.2
22	Florida	5.2
23	Utah	5.6
24	Arizona	5.9
25	Vermont	6

26	Kansas	6.8
27	California	7.4
28	Minnesota	7.4
29	New Hampshire	7.4
30	Alabama	7.6
31	Idaho	7.7
32	Colorado	8
33	Montana	8.3
34	Alaska	9.3
35	Louisiana	9.7
36	Maryland	9.8
37	Maine	10.1
38	Oklahoma	10.4
39	South Carolina	10.4
40	Oregon	11
41	New Mexico	12.2
42	New Jersey	13.2
43	Illinois	13.6
44	Rhode Island	13.9
45	Massachusetts	14.2
46	Kentucky	14.2
47	West Virginia	14.5
48	Connecticut	15.2
49	Mississippi	15.9
50	Hawaii	16.2

Source: Moody's January 2011 report

Automatic Taxpayer Refund

- 50% of state's excess reserves were transferred into state pension funds; 50% returned to taxpayers as refundable credit (50% = $360.6 million in FY 2013)
- In FY 2013, the following pension funds received transfers to increase their funded status to 80%:
  - Indiana State Police
  - Conservation and Excise Officers
  - Judges
  - Prosecutors
- The Pre-1996 Teachers' Pension Fund received the remaining excess ($206.8 million in FY 2013)
  - In future years, the entire 50% dedicated to pensions will be transferred into the Pre-1996 Teachers' Pension Fund

Other Post-Employment Benefits

- 2nd lowest unfunded OPEB liability per capita
  - As of June 30, 2012, Indiana's unfunded OPEB liability totaled $314.7 million
  - Reduction of more than 40% compared to June 30, 2010
- Pre-funding of plans began in FY 2011
- Unfunded liability for State Personnel Department-sponsored health plans eliminated in FY 2012
- Requested OPEB ARC to be funded in FY 14-15 budget

2nd Lowest Unfunded Liability for Retiree Health Care Per Capita

Rank	State	Unfunded OPEB Liability Per Capita
1	Hawaii	$10,297
2	Alaska	8,744
3	New Jersey	8,118
4	Connecticut	7,470
5	Delaware	6,422
6	Michigan	4,509
7	West Virginia	3,759
8	North Carolina	3,458
9	Illinois	3,422
10	Alabama	3,130
11	New York	2,932
12	Maryland	2,834
13	Vermont	2,590
14	Ohio	2,546
15	Massachusetts	2,480
16	New Hampshire	2,450
17	Louisiana	2,212
18	Texas	2,203
19	California	2,075
20	South Carolina	1,984
21	Georgia	1,983
22	Maine	1,858
23	Kentucky	1,715
24	New Mexico	1,626
25	Pennsylvania	1,361

Rank	State	Unfunded OPEB Liability Per Capita
26	Washington	$1,031
27	Rhode Island	736
28	Arkansas	640
29	Nevada	619
30	Montana	547
31	Virginia	547
32	Missouri	515
33	Wyoming	464
34	Colorado	370
35	Wisconsin	273
36	Tennessee	270
37	Mississippi	245
38	Florida	242
39	Minnesota	221
40	Kansas	193
41	Iowa	177
42	North Dakota	169
43	Utah	144
44	Oregon	138
45	Arizona	111
46	Idaho	87
47	South Dakota	87
48	**Indiana**	**49**
49	Oklahoma	1

* Data for Nebraska was not available

Source: *Bloomberg, Pew Center on the States, U.S. Census*